

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
VALLEY TREATMENT PLANT, INC.) CASE NO. 8853

O R D E R

On May 31, 1983, Valley Treatment Plant, Inc., ("Valley Treatment") filed with this Commission an application requesting authority to adjust its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The rates proposed by Valley Treatment would produce additional annual revenues in the amount of \$36,200, representing an increase of 78.9 percent.

An examination of Valley Treatment's customer billing procedure revealed that its commercial and public authority customers were being underbilled by approximately 304 residential equivalents annually. Upon an analysis of the test-year billings, it was revealed that a proper application of the correct number of residential equivalents in the billing procedure for these two customer classes would produce additional annual revenues in the amount of \$7,050. In addition, the analysis also reflected that test period revenues should be increased further by \$7,575 to reflect additional collections from residential customers based on Valley Treatment's normalized test period revenues. Therefore, Valley Treatment's actual test period revenues have been

normalized in the total amount of \$14,625 to reflect increased revenues from its three customer classes. Based upon the determination herein, Valley Treatment will be allowed to adjust its rates to produce additional annual revenues in the amount of \$2,591, representing an increase of 4.9 percent above normalized test period revenues.

On October 18, 1983, an informal conference was held at the Commission's offices in Frankfort, Kentucky, between members of the Commission staff and representatives of McCauley, Nicolas and Company, accountants for Valley Treatment. This meeting, held at the request of Valley Treatment, was for the purpose of discussing various issues of significance pertaining to the rate adjustment application. Also participating in the conference were staff members of the Consumer Protection Division of the Office of the Attorney General ("AG"), the only party to intervene in this case.

COMMENTARY

Valley Treatment is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky, and serves approximately 261 customers in south central Jefferson County, Kentucky.

TEST PERIOD

The Commission has adopted the 12-month period ended December 31, 1982, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

VALUATION

In February of 1981, Presbourg Partnership ("Presbourg"), comprised of partners Robert Renfro and Daniel Landrum, acquired from American Fletcher Mortgage Company ("AFMC") the subdivision land and wastewater treatment plant of Elvessa Development Corporation ("Elvessa"). Elvessa was the developer of the Apple Valley Subdivision and the operator of Apple Valley Sewage Treatment Plant until 1978, at which time certain properties of Elvessa were placed in receivership. Ultimately, in 1980, Elvessa was liquidated, with AFMC retaining control of the assets of Elvessa in settlement of Elvessa's outstanding liabilities to AFMC.

Upon its acquisition of the assets of Elvessa from AFMC, Presbourg segregated the operations of the subdivision and the sewage system. Valley Treatment, incorporated with Mr. Renfro and Mr. Landrum as sole shareholders, purchased the wastewater treatment plant from Presbourg for the sum of \$313,075--the amount also at which the sewage treatment plant was valued on the books of account of Valley Treatment.

This \$313,075 valuation amount, which is reflective of the original cost of the utility plant in the amount of \$1,047,765 net of contributions in aid of construction of \$734,690,^{1/} was based upon the schedule of utility plant in service submitted in Case No. 6965, An Adjustment of Rates of the Elvessa Development Corporation.^{2/} This method of plant valuation is not in compliance with the Commission's requirement that utility plant in service be recorded at the cost originally incurred by the person

who first devoted the property to utility service, as outlined in the Uniform System of Accounts for Class C and D Sewer Utilities.

Therefore, in its Order dated October 28, 1983, the Commission required Valley Treatment to provide revisions of the entries that were made to record the purchase of the treatment plant from Presbourg. Valley Treatment submitted a revised entry, thus recording the purchase in accordance with the format established in the Uniform System of Accounts for Class C and D Sewer Utilities.^{3/} However, an analysis of this entry revealed that the value to which Valley Treatment assigned contributions in aid of construction had been understated by \$607,957. Of this amount, \$433,292 was recorded as advances for construction, and the remaining \$174,665, which represented tap-on fees, was entirely excluded from the revised entry.

Valley Treatment's response to the AG's information request reflects that the \$433,292 amount classified as advances for construction represents the total of Elvessa's notes payable to various investors for the construction of sewer lines.^{4/} As a result of the placement of Elvessa's assets into receivership, these loans were deemed unpayable and were eventually forgiven by the note holders. The Commission is of the opinion that all components of utility plant in service constructed with these funds constitute contributed property, and should, therefore, be properly accounted for as contributions in aid of construction.

With regard to the remaining \$174,665 of the \$607,957 understatement of contributions, according to the schedule of depreciation submitted with Valley Treatment's rate adjustment

application this amount is composed of tap-on fees. The Commission is of the opinion that these tap-on fees also constitute contributed property, and should likewise be properly accounted for as contributions in aid of construction.

The Commission finds that Valley Treatment should record the appropriate adjusting journal entry that will establish the accurate value for contributions in aid of construction on its books of account. To establish the proper amount, Account No. 108, Utility Plant Acquisition Adjustments, should be charged in the amount of \$174,665; Account No. 252, Advance for Construction, should be charged in the amount of \$433,292; and Account No. 271, Contributions in Aid of Construction, should be credited in the amount of \$607,957.

REVENUE AND EXPENSES

Valley Treatment proposed five adjustments to its test period revenue and expenses. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes, with certain modifications.

Sludge Hauling Expenses

According to its statement of operating expenses, Valley Treatment incurred sludge hauling costs in the amount of \$4,085 during the test period. When compared with the sludge hauling expenses of the three previous 12-month reporting periods of 1981, 1980, and 1979, the test-year expense level was substantially greater than that of each prior period.^{5/} Valley Treatment indicated that the increase in sludge hauling expense during the test period was partially due to an increase in the number of

loads hauled, resulting from the emptying of a sludge storage tank.^{6/}

On November 25, 1983, Valley Treatment submitted additional information reflecting a breakdown of the total sludge hauling cost for each of the 4 years, according to individual invoice amounts. An analysis of the sludge hauling expense and the contract price per load reflects that the number of loads hauled was 43 in 1982, 15 in 1981, 19 in 1980, and 18 in 1979.^{7/}

The Commission is of the opinion that the additional sludge hauling cost incurred as a result of the emptying of the sludge storage tank represents an extraordinary cost, and, as such, should not be entirely charged to test period operating expenses for rate-making purposes. The average number of loads hauled during 1981, 1980, and 1979, was 17.^{8/} This average number, when applied to the test period contract price of \$95 per load, yields an average test period sludge hauling expense in the amount of \$1,615. The deduction of this average expense amount from the actual test period expense of \$4,085 yields \$2,470, which represents the cost associated with the additional number of loads required to empty the sludge storage tank. The Commission is of the opinion that this \$2,470 amount should, for rate-making purposes, be expensed over a period of 3 years. Therefore, one-third of this expense, or \$823, has been combined with the \$1,615 average level of expense to determine the total allowable pro forma expense of \$2,438. As a result, an adjustment in the amount of \$1,647 has been made to decrease sludge hauling expense.

Utility Service - Water Cost

According to its test period statement of sewer operation and maintenance expense, Valley Treatment incurred total water costs in the amount of \$1,490 as a result of its water purchases from the Louisville Water Company ("Louisville Water"). Although Louisville Water effected an increase in rates on January 1, 1983, Valley Treatment did not propose any pro forma adjustment to this expense. Therefore, the Commission has adjusted test period water expense in the amount of \$46 to reflect this increase based upon the application of Louisville Water's current rates to Valley Treatment's test period water consumption in gallons.

Fuel and Power Purchased for Pumping and Treatment

During the test period Valley Treatment incurred fuel costs in the amount of \$14,531 as a result of its purchases of electricity from Louisville Gas and Electric Company ("LG&E"). However, in its application Valley Treatment did not propose any pro forma adjustments to this expense. The Commission has therefore increased Valley Treatment's fuel expense by an amount of \$1,810 to reflect the application of LG&E's current general service rates to Valley Treatment's test period electricity consumption data.

Maintenance - Treatment and Disposal Plant

According to its statement of operation and maintenance expenses, Valley Treatment incurred maintenance expenses in the amount of \$11,531 during the test period. These expenses were documented through invoices submitted by Valley Treatment^{9/} as well as a breakdown of maintenance expenses.^{10/} In its Order

dated July 28, 1983, the Commission requested additional information regarding the nature of three expense items. These three expense items were:

- a) a payment dated May 7, 1982, in the amount of \$895.
- b) a payment dated November 10, 1982, in the amount of \$2,777.
- c) a payment dated December 31, 1982, in the amount of \$3,679.

Valley Treatment's response indicated that none of the repairs was extraordinary in nature, and none would extend the service life of any equipment repaired.11/

The payment dated May 7, 1982, in the amount of \$895 was made to Andriot-Davidson's Service Company, Inc., for various pump repairs. Included in this amount was a payment of \$297 for one used 230 volt submersible pump which was installed in the large digester tank. Although the pump represents used equipment, the Commission is of the opinion that for rate-making purposes this item should be capitalized to the appropriate utility plant in service account and depreciated over a period of 3 years. Therefore, an adjustment in the amount of \$297 has been made to decrease the maintenance of treatment and disposal plant expense account. Likewise, an adjustment to increase depreciation expense in the amount of \$99 has been made to reflect one-third of the depreciable amount of this capitalized item.

According to the invoices Valley Treatment submitted in support of the payment dated November 10, 1982, in the amount of \$2,777, this expense was incurred as a result of repairs made to

an aeration tank in the amount of \$2,536, and repairs made to a standby chlorinator and a microstrainer pump in the amount of \$241. The Commission is of the opinion that of the \$2,536 in repairs made to the aeration tank, an amount of \$2,471 represents repairs that are of an extraordinary nature and, hence, not expected to recur in subsequent operating periods. For rate-making purposes, the full amount of these repairs should not be charged to test period operating expenses but should, instead, be amortized over a period of 3 years. Therefore, the Commission has decreased test period maintenance of treatment and disposal plant expenses in the amount of \$2,471, and has increased amortization expense in the amount of \$824.

Valley Treatment related that the payment dated December 31, 1982, in the amount of \$3,679 was associated with expenses incurred in 1981 as a result of the repairs to a leaking main.^{12/} The invoice submitted as documentation of this expense indicated that the original amount billed from Glasser Excavating, the contractor who repaired the leak, was \$3,919. This amount was contested, with the result being a court order which required Valley Treatment to pay \$3,679 for the repairs.

The Commission is of the opinion that, due to the extraordinary nature of these repairs, for rate-making purposes the full amount of payment should not be charged to test period operating expenses but should, instead, be amortized over a period of 3 years. Therefore, an adjustment has been made to decrease test period maintenance of treatment and disposal plant expenses by an amount of \$3,679. Likewise, an adjustment to increase

amortization expense in the amount of \$1,226 has been made to reflect the allowable amount of this expense.

In the examination of the invoices which Valley Treatment submitted as documentation of the maintenance of treatment and disposal plant expenses, it was discovered that invoice no. 1230-15 from Andriot-Davidson's Service Company, Inc., in the amount of \$119 represented expenses that were incurred during 1981, but were paid during the test period. The Commission is of the opinion that the inclusion of this item in test period operating expenses does not comply with the Commission's requirement that a utility maintain its accounts on the accrual basis, as indicated in the Uniform System of Accounts for Class C and D Sewer Utilities. Therefore, maintenance of treatment and disposal plant expense has been decreased by \$119 to reflect the disallowance of this expense item for rate-making purposes.

Customer Collections Expense

Valley Treatment proposed an adjustment to increase test period customer collection expense by an amount of \$146 to reflect the increase made effective May 1, 1983, in the joint service cost charged by Louisville Water for its billing and collecting services. Valley Treatment computed this adjustment by applying the difference between Louisville Water's new joint service cost and the previous joint service cost to the annualized total number of customer bills rendered.

However, this charge should be computed on the basis of the proration of the joint service cost in the same proportion as that

of the sewer collections to the total of the sewer and the water collections. Utilizing this calculation, the Commission has computed Valley Treatment's customer collection expense based upon the rates allowed herein, resulting in an adjustment to increase the test period expense in the amount of \$221. In addition, test period customer collection expense has been increased in the amount of \$1,584 to reflect the normalization of this expense based upon the actual test period customer collection fees charged by Louisville Water. The combination of these adjustments results in an adjusted test period customer collection expense in the total amount of \$1,805.

Regulatory Commission Expense

Valley Treatment did not propose an adjustment to test period operating expenses to reflect the amount of costs associated with the filing of the rate adjustment application. However, Valley Treatment related that it incurred expenses in the amount of \$1,935 in association with the preparation of the rate adjustment application by McCauley, Nicolas and Company, Certified Public Accountants.^{13/} In addition, a breakdown of the expenses associated with the rate case was provided, indicating an additional \$2,685 in expenses incurred as a result of the preparation of responses to staff information requests.^{14/} Further, Valley Treatment indicated that an additional \$800 in rate case expense had been incurred but had not been billed by McCauley, Nicolas and Company.^{15/} Thus, the total amount of

expense incurred by Valley Treatment in association with this rate case was \$5,420.

The ARF procedure was established as a simplified and less expensive method in which small utilities could file for rate adjustments. The Commission is of the opinion that the expenses associated with rate adjustment applications filed under this procedure should be limited to a maximum of \$1,000, to be amortized over a period of 3 years, unless justification for additional cost has been provided. The Commission has reviewed the application and record in this matter, and has concluded that the extensive data requested concerning the net investment and depreciation are above that normally required in an ARF proceeding, although the total expense amount seems out of line for an ARF proceeding. The Commission is also aware that Valley Treatment did not request a rate case expense adjustment. In light of these circumstances, the Commission will allow rate case expenses of \$1,500. Therefore, an adjustment has been made to increase test-period operating expenses in the amount of \$500 to reflect one-third of the allowable regulatory commission expense of \$1,500.

Depreciation Expense

Valley Treatment proposed an adjustment to decrease test period operating expenses in the amount of \$2,241 to reflect the amount of depreciation expense associated with utility plant in service net of contributions in aid of construction. As discussed in the preceding valuation section of this Order, upon its acquisition of the sewage system, Valley Treatment recorded its

utility plant in service at net dollars invested--an amount less than original cost. Therefore, its adjustment to test period depreciation expense was based upon the application of a composite depreciation rate to this investment amount net of contributions in aid of construction.

The Commission has computed Valley Treatment's test period depreciation expense based upon a composite depreciation rate applied to the original cost of utility plant in service net of contributions in aid of construction. This calculation resulted in a test period allowable depreciation expense in the amount of \$7,089.^{16/} Therefore, an adjustment to decrease operating expense in the amount of \$2,584 has been made to reflect this allowable amount.

Occupational Tax

Valley Treatment proposed an adjustment to increase test period operating expenses in the amount of \$682 to reflect the amount of the Jefferson County occupational tax that would be incurred as a result of the increased revenues generated by Valley Treatment's proposed rates. The proposed adjustment was determined on the basis of the application of the 2.2 percent occupational tax rate to the adjusted net income for the test period.^{17/}

Based upon the application of this tax rate to the net income resulting from the revenues generated by the rates allowed herein less allowable test period operating expenses, the

Commission has determined Valley Treatment's test period occupational taxes to be \$150.^{18/} Therefore, an adjustment to reflect this amount has been made to test period tax expense.

After consideration of the aforementioned adjustments, the Commission finds that Valley Treatment's test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 38,260	\$ 14,625	\$ 52,885
Operating Expenses	53,255	<4,586>	48,669
Operating Income	<u>\$<14,995></u>	<u>\$ 19,211</u>	<u>\$ 4,216</u>
Interest Income	114	-0-	114
Other Deductions	<u>-0-</u>	<u>150</u>	<u>150</u>
Net Income	<u><u>\$<14,881></u></u>	<u><u>\$ 19,061</u></u>	<u><u>\$ 4,180</u></u>

REVENUE REQUIREMENTS

Valley Treatment based its revenue requirements upon a 15 percent rate of return on a net investment of \$201,681. Valley Treatment indicated that this level of return was "determined to be an amount that an investor would expect to earn on an investment, considering the risk of operating a sewage plant, and the exposure to potential liability."^{19/} However, no supporting computational analysis was presented to indicate the basis upon which Valley Treatment calculated this rate of return.^{20/}

In determining the revenue requirements of utilities within its jurisdiction, the Commission has primarily utilized four methods to derive a utility's allowed earnings. These methods are: rate of return on net investment or capital, debt service coverage, times interest earned ratio, and operating ratio. The

method most frequently used for determining the revenue requirements of sewer utilities is the operating ratio.^{21/} The Commission has applied this method of revenue determination due to the unusual capital structure of sewer utilities, the difficulty of arriving at a fair value of investment for rate-making purposes, and the relatively small capital cost in comparison to plant investment. The operating ratio generally allowed for sewer utilities has been in the range of 88 percent. The Commission has examined the evidence of record in this case, and finds the operating ratio to be the acceptable method for determining the revenue requirements of Valley Treatment, although the Commission has also considered the return on the allowable net investment of \$52,999 as determined in Appendix B of this Order, and has concluded that this method would allow a fair and reasonable return of 13 percent on that net investment.

The determination of a reasonable level of earnings, with the expectation that those earnings can be achieved, is the primary concern in formulating an adequate operating ratio for Valley Treatment. In its review of this case, the Commission has allowed several adjustments to historic test period operating expenses to reflect known and measurable changes, thus rendering pro forma operating expenses that are representative of expected future operating costs. Therefore, the Commission is of the opinion that an operating ratio of 88 percent will produce a reasonable level of earnings, and likewise, will provide sufficient coverage for the expected operating costs. The application of an operating ratio of 88 percent to Valley

Treatment's combined adjusted test period operating expenses, depreciation and taxes results in a test period revenue requirement of \$55,476, reflecting a revenue increase in the amount of \$2,591 above normalized test period revenues.

OTHER ISSUES

Accounting Records

In the examination of Valley Treatment's test period statement of sewer operation and maintenance expense, it was discovered that various items of sewer operation and maintenance expense had been improperly classified with respect to the expense accounts in which they were reported. In its expense statement, Valley Treatment charged to Account No. 700, Supervision and Engineering, a total expense in the amount of \$6,148. However, the invoices submitted by Valley Treatment in documentation of the sewer operation and maintenance expenses indicated that of the \$6,148 amount, an amount of \$5,865 represented fees paid to Andriot-Davidson's Service Company, Inc., for contracted maintenance.^{22/} Thus, that portion of the expense should have been charged to Account No. 710-A, Routine Maintenance Service Fee.

Valley Treatment reported in Account No. 701-A, Collection System-Labor, Materials and Expenses, an expense in the amount of \$4,085. Examination of the invoices submitted by Valley Treatment in support of this expense revealed that this amount represented charges from CFS, Inc., for sludge hauling.^{23/} Therefore, this expense should be charged to Account No. 701-C, Treatment System-Sludge Hauling.

Invoices submitted for the amount of \$1,950 reported in Account No. 701-C, Other-Labor, Materials, and Expenses, reflected that of this charge, an amount of \$1,490 represented expenses incurred as a result of water purchased from Louisville Water.^{24/} Therefore, these water charges should be expensed to Account No. 701-C, Utility Service-Water Cost.

In its test period statement of sewer operation and maintenance expense, Valley Treatment reported in Account No. 920, Administrative and General Salaries, an amount of \$2,000. Valley Treatment indicated that this expense was representative of a \$500 per month management fee that the Renfro Company charges Valley Treatment for providing office space and maintaining day-to-day operations. Valley Treatment also related that the payment for these services was contingent upon the availability of funds; thus, the \$2,000 amount represented the payment for these services for a period of 4 months.^{25/}

According to the Uniform System of Accounts, fees charged for providing management services should be reported in Account No. 700-A, Owner/Manager Management Fee; whereas amounts incurred for the rent of office space should be expensed to Account No. 931, Rents. Therefore, Valley Treatment should revise its accounting procedure for this item in accordance with the classification established in the Uniform System of Accounts. With regard to the fees charged for management services, the Commission is of the opinion that these fees should not exceed a total annual amount of \$2,000.

An analysis of the remittance advices which Valley Treatment submitted as evidence of the fees paid to Louisville Water for its customer billing and collection services revealed that the revenues reported by Valley Treatment were reflective of only the net amount remitted by Louisville Water.^{26/} In addition, an examination of the test period statement of sewer operation and maintenance expenses indicated that Valley Treatment was not expensing the \$1,584 amount charged by Louisville Water for this collection service. As indicated previously in this Order, test period revenues and expenses have been normalized to reflect the \$1,584 amount. Therefore, to accurately reflect its annual revenues and expenses, Valley Treatment should report the gross amount of sewer revenues collected by Louisville Water, and should expense in Account No. 903-A, Agency Collection Fee, the total amount of charges incurred for the collection service.

Notes Payable

Valley Treatment reported Notes Payable to Associated Companies on its December 31, 1982, balance sheet in the total amount of \$285,954. This amount represents the unpaid balance of the loan funds that were used by Valley Treatment to purchase the sewage treatment plant from Presbourg.^{27/} The purchase of Valley Treatment by Mr. Landrum and Mr. Renfro was not a typical sale-purchase in as much as the parties purchasing the assets of Valley Treatment were the owners at the time the sale-purchase occurred. The stated price in the amount of \$313,075 for the purchase of Valley Treatment was established at the depreciated original cost less contributions in aid of construction. This

price was not negotiated, and no sales agreement exists between the parties involved.^{28/} Since the purchase price was established at \$313,075, the purchasers of Valley Treatment had the option of recording the offsetting liability for the purchase as debt, equity, or contributions. Apparently the liability was established as debt. The Commission has previously determined that this amount is in excess of that deemed proper for rate-making purposes. In addition, no evidence has been presented in this proceeding to reflect that an obligation for repayment of these funds exists. Therefore, at this time the stated liability is no more an obligation to Valley Treatment than would be equity funds in the form of paid-in capital. Also, since the Commission has already determined that the net income allowed herein would provide a reasonable return on capital, it would be a double recovery to also allow interest on that same capital.

The Commission hereby advises Valley Treatment that since no evidence of indebtedness exists at this time, it can not consider the debt as a binding obligation for rate-making or any other purposes, and before any such consideration can be given in future proceedings, Commission authorization to issue evidence of indebtedness must be sought in accordance with KRS 278.300.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates for Valley Treatment, as they will produce annual revenues of \$55,476. This revenue will be sufficient to meet

Valley Treatment's operating expenses found reasonable for rate-making purposes, and to provide a reasonable surplus.

2. The rates proposed by Valley Treatment would produce revenue in excess of that found reasonable herein and should be denied.

3. A portion of the accounting records maintained by Valley Treatment are not in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities as prescribed by this Commission, and should be revised.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Valley Treatment on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Valley Treatment be and they hereby are denied.

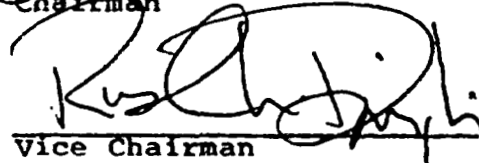
IT IS FURTHER ORDERED that Valley Treatment shall revise its accounting records in the areas specifically mentioned herein, to be in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities as prescribed by this Commission.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Valley Treatment shall file with this Commission its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 26th day of January, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Tap-on Fees \$174,665
Advances for Construction 560,025

Contributions in Aid of Construction \$734,690
2. Response, Item No. 2, Attorney General's information request, dated June 29, 1983.
3. Response, Item No. 3(B), Commission's Order dated October 28, 1983.
4. Response, Item No. 1(3), Attorney General's information request, dated June 29, 1983.
5.

<u>Year</u>	<u>Expense</u>
1982	\$4,085
1981	1,416
1980	1,805
1979	1,530
6. Response, Item No. 8, Commission's Order dated September 14, 1983.
7.

<u>Year</u>	<u>Expense</u>	<u>Contract Price</u>	<u>No. of Loads</u>
1982	\$4,085	\$95	43
1981	1,416	95	15
1980	1,805	95	19
1979	1,530	85	18
8.

<u>Year</u>	<u>No. of Loads</u>
1981	15
1980	19
1979	<u>18</u>
Total	52 + 3 = 17 - average no. of loads
9. Response, Item No. 4(6), Attorney General's information request, dated June 29, 1983.
10. Response, Item No. 1, Commission's Order dated June 30, 1983.
11. Response, Item No. 1(a), Commission's Order dated July 28, 1983.
12. Response, Item No. 1(c), Commission's Order dated July 28, 1983.

13. Response, Item No. 2, Commission's Order dated June 30, 1983.
14. Response, Item No. 2, Commission's Order dated July 28, 1983.
15. Response, Item No. 1, Commission's Order dated September 14, 1983.
16.

Total Utility Plant in Service	\$1,071,062
Less: Contributions in Aid of Construction	788,190
Net Plant	<u>\$ 282,872</u>
Composite Depreciation Rate	2.50%
Test Period Allowable Depreciation	<u>\$ 7,089</u>
Less: Test Period Actual Depreciation	9,673
Adjustment to Depreciation	<u><u>\$ <2,584></u></u>
17. Response, Item No. 8, Commission's Order dated June 30, 1983.
18.

Adjusted Test Period Revenue	\$ 55,476
Less: Allowable Operating Expense	48,669
Net Operating Income	<u>\$ 6,807</u>
Occupational Tax Rate	2.2%
Tax Expense	<u><u>\$ 150</u></u>
19. Response, Item No. 4, Commission's Order dated June 30, 1983.
20. Response, Item No. 5, Commission's Order dated July 28, 1983.
21. Operating Ratio =
$$\frac{\text{Operating Expense} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$
22. Response, Item No. 4(1), Attorney General's information request, dated June 29, 1983.
23. Ibid., Item No. 4(2).
24. Ibid., Item No. 4(3).
25. Response, Item No. 3, Commission's Order dated July 28, 1983.
26. Response, Item No. 6, Commission's Order dated June 30, 1983.
27. Response, Item No. 3 (B), Commission's Order dated September 14, 1983.
28. Response, Item No. 1, Commission's Order dated October 28, 1983.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8853 DATED 1/16/84

The following rates are prescribed for the customers in the area served by Valley Treatment Plant, Inc., located in Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

<u>Customer Category</u>	<u>Monthly Rates</u>
Single Family Residential	\$14.43 per residence
Commercial Facilities	24.29 per residential equivalent ¹
All Other	24.29 per residential equivalent

¹ A "residential equivalent" is defined as a sewage flow quantity of 400 GPD. The number of residential equivalents shall be determined by dividing a customer's monthly water consumption by 12,000.

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8853 DATED

Utility Plant in Service Classified ¹	\$ 1,071,062
Utility Plant Acquisition Adjustments ²	<u>188,410</u>
Total Utility Plant	\$ 1,259,472
Less: Accumulated Provision for Depreciation and ³ Amortization of Utility Plant ³	<u>234,833</u>
Net Utility Plant	\$ 1,024,639
Add: Cash Working Capital	4,960
Less: Contributions in Aid of Construction	788,190
Utility Plant Acquisition Adjustments	<u>188,410</u>
Total Net Investment	<u>\$ 52,999</u>

¹ Utility Plant at Original Cost \$ 1,047,765
Additions to Plant 23,000
Capitalized Expense as Found Herein 297
Total Utility Plant in Service
Classified \$ 1,071,062

² Per Response to Commission's Order
of October 28, 1983 \$ 13,745
Per Valuation Section Referenced Herein 174,665
\$188,410

³ Accumulated depreciation and amortization of utility
plant at December 31, 1982, based upon the original
cost of plant established herein.